



California Investment Guide

An Overview of Advantages, Assistance, Taxes and Permits

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Business Climate

California is once again “open for business.” Through the leadership of Governor Arnold Schwarzenegger, California is lowering the cost of doing business and making it easier to invest and grow and to create jobs.

A quick review of key initiatives and actions in 2004-05 make it clear that California has entered a new era for business investment and job creation:

- Californians approved Propositions 57 and 58, ballot measures the Governor proposed to limit state spending and refinance the state’s debt;
- The Legislature passed the Governor’s comprehensive workers’ compensation reform bill (SB 899), reducing employer costs by billions of dollars;
- The Governor directed the state Public Utilities Commission (PUC) to implement measures to accelerate power production;
- The Governor championed Proposition 71 – the Stem Cell Research Initiative that will disburse \$3 billion in grants over the next 10 years;
- The Governor has kept his pledge of no tax increases while delivering a budget on time and California’s credit rating has been upgraded several times since he took office in November 2003; and,
- The Governor and Legislature reformed employer litigation and Californians overwhelmingly approved lawsuit limitations.

California's Advantages

California offers unparalleled value to companies seeking the optimal business location. Our critical mass of business services, intellectual capital, financial acumen, transportation systems and market access enhance the corporate mission and make California the most efficient place to do business in the world. Why invest or create jobs in California? Because the long-term outlook for our economy and business climate is as sunny as the legendary climate.

Innovation and Intellectual Capital

California leads the nation in trends and innovation. New ideas are a natural part of life here. Californians have a very strong need to express themselves and a long history of free thinkers conceiving the inconceivable. California supports creativity with a superior educational system and job training that produces an unrivaled, highly skilled labor force.

Over 2.5 million students are enrolled in 250 colleges and universities. Approximately 77% of California residents are high school graduates and over 27% have earned a bachelor's degree or higher. California possesses the nation's highest concentration of engineers, scientists, mathematicians and skilled technicians.

Six of the top 20 engineering schools are in California. We have the highest number of Inc. Magazine "500 Fastest Growing Companies." California is a major center for design of automobiles, furniture, apparel, software, electronics, telecommunications services, computers and semiconductors. California boasts nearly 614 members of the National Academy of Sciences and 107 Nobel Laureates.

According to Alan Greenspan, Chairman of the Federal Reserve Board, all this innovation and intellectual capital translates into California workers performing at 15% greater productivity than the national average.

Nation's Leading High-Tech State

California's culture embraced technology as part of its founding DNA. Technological innovation powers the California economy. We're home to nearly 1 million high-tech workers, twice the number of the next-closest state, and one-sixth of *all* U.S. high-tech workers.

High-tech exports totaled \$48 billion in 2004, ranked first nationwide, and high-tech goods represent nearly 50% of the state's annual exports.

California leads the nation in several strategic high-tech industry segments, comprising between 20-60% of U.S. market share in electronic components, commercial aerospace, medical instruments, biotechnology and transportation.

The state ranks first in employment totals for computer systems design, telecommunications, research and development laboratories, and engineering services.

California has been the #1 manufacturing state since 1977. High-tech accounts for 25% of California's manufacturing production workers and almost 50% of value-added manufacturing workers. Motion picture, television production and other media employ 270,000 and accrue \$31 billion in annual receipts. Forty three percent of the nation's biotech employees and one third of its biotech companies are headquartered here.

In many ways, California's technology fortune has driven the nation's economic future.

Research, Capital and Access to Financial Resources

California leads the nation in research and development (R&D) and benefits from receiving almost half of the nation's venture capital investment. In 2004, California companies received more than \$9.3 billion or 45 percent of all venture capital (VC) dollars invested in the U.S. Top sectors receiving VC funding are software, telecommunications, biotechnology, medical devices and semiconductors.

Biomedical companies in California now total 2,600 and employ over 230,000. They generate \$32.3 billion in worldwide revenue and \$7 billion in state exports. Of these, 86% were founded in the last 25 years. A total of 87 public and private research institutions in California received \$2.9 billion in National Institute of Health funding in 2003. Total reported biomedical private investment R&D in California has now surpassed \$15.5 billion.

California ranks first in nanotechnology companies, holders of over 200 patents. More research and VC funding for this emerging industry is invested here than anywhere else. The Silicon Valley has established a Blue Ribbon Task Force on Nanotechnology. The National Science Foundation predicts industry revenue will reach \$1 trillion by 2015.

University science research expenditures in California top \$3.3 billion annually. Industrial and academic R&D in California tops all other states with a total of \$55 billion.

California offers a 15% R&D tax credit for in-house research and 24% for contract research, the highest in the nation.

Commercial bank assets in California top \$475 billion and the state is home to leading venture, investment banking, and private equity firms.

Sixth-Largest Market in the World

California has the largest, most robust and most resilient economy in the United States. The Golden State produced \$1.55 trillion in goods and services in 2004, behind only Japan, Germany, United Kingdom, France and Italy. Our economy represents 13.3% of United States gross domestic product.

Our population of 36.8 million (January 2005) is growing dramatically in size and diversity. It represents 12.5% of U.S. population, one out of every eight persons. The state added 539,000 residents in 2004. We're expected to add 2 million more households and 6 million more residents over the next 10 years.

California is the #1 state in the nation for attracting foreign direct investment, reaching over \$120 billion. Top investing countries are Japan, the United Kingdom, and the Netherlands. Foreign affiliate employment accounts for over 700,000 jobs in California. The state also has one of the largest concentrations of international banks, foreign consulates, and bi-national chambers of commerce in the United States.

California is the largest consumer market for biomedical, food and agriculture, apparel and entertainment products, and is a bell-weather for the nation's economy.

Pacific Gateway

California is globally connected with world-class infrastructure. More than 15,000 miles of highways and freeways carry over 1.3 billion tons of freight per year. Twelve cargo airports carry more than 3 million tons of freight per year. Eleven cargo seaports handle more than 7.7 million TEU's (containers) and 60 million metric tons per year of shipments, over 1/3 of the nation's total waterborne cargo. The ports of Los Angeles and Long Beach combine to form the third busiest harbor in the world and, with the Port of Oakland, number 1, 2 and 7, respectively, in the United States.

Eighteen foreign trade zones (FTZ) allow tenants to delay or forgo import and export duties on goods and raw materials until they enter U.S. commerce. If the goods are warehoused in an FTZ, then exported to other countries, no duties are paid at all.

Twenty-nine freight railroads in California operate over nearly 6,000 miles to form an integral part of the global transportation network. Two Class I railroads, one regional railroad, 13 local railroads and 13 switching and terminal railroads carried over 6 million carloads and 155 million tons of freight in 2003. Mixed freight, food, glass and stone, chemicals and primary metal products make up the bulk of the originated and terminated tonnage carried.

California is a global export leader with over \$100 billion in goods and services in 2004, an increase of \$15 billion from 2003. International-related commerce accounts for approximately one-quarter of the state's economy. California exports goods to over 220 foreign markets around the world, with our largest trading partners being Canada, Mexico, Japan and the U.K.

California Lifestyle

Californians lead an enviable lifestyle that consistently ranks #1 in the Harris Poll asking respondents to name the #1 most desirable state in which to live. Residents here have the highest life expectancy in the country and receive the best health care. Our population has a median age of only 34.1 years. Californians enjoy natural beauty right in their backyards, featuring towering forests, snow-capped mountains, beautiful beaches and serene deserts.

The Golden State is home to over 1,000 golf courses, 45 snow resorts, 21 professional sports teams, 20 million square miles of national forests, 272 state parks, 134 wilderness areas, 900 miles of coastline and 700-plus wineries.

Total direct travel spending in California during 2004 was \$82.5 billion, a 7.4% increase over 2003, representing nearly 900,000 jobs.

Investment Assistance

California Business Investment Services (CalBIS) (www.labor.ca.gov/calBIS/) assists companies and investors interested in employing Californians. Major state-level incentives are described in this section. Note that many incentives are site driven and/or negotiated with local government on a case-by-case basis or under an existing local economic development policy. As needed, “A-Teams” comprised of state and local officials are assembled to bring public and private resources together to assist investors or companies interested in the Golden State.

Targeted Tax Credits

Economic Development Areas

The state offers four types of Economic Development Areas (EDAs): Enterprise Zones; Local Agency Military Base Recovery Areas (LAMBRA); Manufacturing Enhancement Areas (MEA); and, Targeted Tax Areas (TTA).

Enterprise Zones. Companies located within the boundaries of an Enterprise Zone are eligible for tax credits.

The first major Enterprise Zone tax credit is equivalent to the sales and use tax paid on the first \$20 million of qualified new or used manufacturing equipment purchased each year. Qualified machinery is machinery or parts used to:

- Manufacture, process, fabricate, or otherwise assemble a product;
- Produce renewable energy resources; or
- Control air or water pollution.

The definition of “qualified property” has been expanded to include data processing and communications equipment including, but not limited to, computers, CAD systems, copy machines, telephones systems and faxes. Equipment must be purchased in California unless equipment of comparable price and quality cannot be found in California.

The second major Enterprise Zone benefit takes the form of a credit equal to a percentage of the wages paid to a qualified employee. The credit is based on the lesser of the actual hourly wage or 150 percent of the state-established minimum wage.

The credit is provided over a five-year period with 50 percent of the wages creditable in the first year of employment, 40 percent the second year, 30 percent the third year, 20 percent the fourth year, and 10 percent the fifth year. If the employee stays with the company for the entire 5-year period, the company receives credits totaling nearly \$32,000 per qualified employee. If the employee is terminated prior to 270 days of employment, the credit is recaptured.

Other Enterprise Zone benefits that may apply in certain cases include:

- A 15-year carryover of up to 100 percent of net operating losses.
- Expensing of certain depreciable property.

Lender interest income from loan to zone businesses is deductible.

<http://www.hcd.ca.gov/fa/cdbg/ez>

LAMBRA, MEAs, and TTAs are detailed in the above link. LAMBRA zones are a companion to Enterprise Zones. The most notable differences in incentives include enhanced equipment purchase eligibility under the sales and use tax credit; an annual wage limitation of \$2 million per year under the hiring tax credit; and redefinition of qualified employees to include displaced military or civilian employees of the former base.

<http://www.hcd.ca.gov/fa/cdbg/ez>

Research and Development Tax Credit

Designed to encourage companies to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15 percent credit against their bank and corporation tax liability for qualified in-house research expenses, and a 24 percent credit for basic research payments to outside organizations.

Qualified research expenses generally include wages, supplies and contract research costs. To qualify, research must be conducted within California and include basic or applied research of scientific inquiry, original investigation for the advancement of scientific or engineering knowledge or improved effectiveness of commercial products.

<http://www.ftb.ca.gov/forms/misc/1082.pdf>

Net Operating Loss Carryover

California tax law allows businesses that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following years. New businesses can carry over 100 percent of their losses for 10 years if the loss is in their first year of operation,

100 percent over seven years if the loss is in their second year of operation, and 100 percent over six years if the loss is in their third year of operation. Existing California business can carry over 50 percent of their losses for five years.

<http://www.ftb.ca.gov/>

Empowerment Zones

The federal government has designated sections of several California communities as Empowerment Zones and Enterprise Communities (EZs and ECs). The cities of Fresno, Santa Cruz, Watsonville, Los Angeles, Oakland, Santa Ana, and the counties of Imperial and Riverside have designated EZs and ECs. Benefits to businesses locating or expanding in EZs and ECs include:

- Employer wage credits of 20 percent for the first \$15,000 in wages paid to an individual who resides in the EZ up to \$3,000;
- Section 179 deduction allowing businesses to deduct all or part of the cost of eligible property (machinery, furniture, equipment, computers) up to an additional \$20,000;

- Availability of low interest rate tax-exempt private activity bonds to finance industrial projects typically between \$1-\$3 million (some zones have substantially larger limits), often with fewer restrictions than those normally associated with tax-exempt bond financing;

- Possible city business tax exemptions; and,

- Postponement of capital gains on the sale of EZ/EC assets.

<http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/index.cfm>

Foreign Trade Zones

California's foreign trade zones (FTZ) are located in San Francisco, San Jose, Long Beach, Oakland, West Sacramento, San Diego, Palmdale, Los Angeles, Port Hueneme, Shafter, Merced/Madera/Fresno counties, Stockton, Palm Springs, Santa Maria, Victorville, Imperial, and Riverside County.

FTZs are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry. Foreign trade zones allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes.

Merchandise entering a zone may be stored, tested, sampled, relabeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled, manufactured, salvaged, destroyed or processed. Products exported from or imported into foreign trade zones are excluded from customs duty and excise taxes until the time of transfer from the foreign trade zone.

<http://www.ia.ita.doc.gov/ftzpage>.

New Markets Tax Credits

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against federal income taxes for qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year period. In each of the first three years, the investor receives a credit equal to 5 percent of the total amount paid for the stock or capital interest at the time of purchase.

For the final four years, the value of the credit is 6 percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. NMTCs will be allocated annually by the Fund to CDEs under a competitive application process. As of 2005, allocatees in California include Border Communities Capital Company, LLC of Solana Beach; Clearinghouse CDFI of Lake Forest; Impact Community Capital CDE, LLC of San Francisco; KHC New Markets CDE, LLC Series A of Carlsbad; Lenders for Community Development of San Jose; and WNC National Community Development Advisors, LLC of Costa Mesa.

<http://www.cdfifund.gov/programs/programs.asp?programID=5>

Joint Strike Fighter Income Tax Credits

Income tax credits for businesses involved in the Joint Strike Fighter program include a hiring wage credit and a property credit. These credits apply to taxpayers under initial contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter. Any excess credit can be carried forward for up to eight years.

The hiring wage credit is a specified sliding scale percentage (50 percent for 2001, 40 percent for 2002, 30 percent for 2003, 20 percent for 2004, and 10 percent for 2005) of employee wages. The wages can be paid to new or existing employees whose services for the taxpayer are at least 90 percent directly related to the contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter. The credit is limited to \$10,000 per year, per employee, and must be pro-rated for partial years.

The property credit equals 10 percent of the cost of qualified property. Qualified costs are those upon which California sales or use tax has been paid and is capitalized. Qualified property means tangible personal property and capitalized labor costs that are treated as direct costs allocable to that property, used by a taxpayer primarily in activities to manufacture a product for ultimate use in a Joint Strike Fighter.

The credit must be recaptured if, within one year of being placed in service, the property is sold, moved out of state or used for purposes other than manufacturing a product for ultimate use in a Joint Strike Fighter. The taxpayer can take this credit and the Enterprise Zone Sales and Use Tax credit for the same item.

http://www.ftb.ca.gov/forms/04_forms/04_3534.pdf

Employee Training

Job Referral and Placement

California's Employment Development Department (EDD) works with businesses to access the state's entire workforce, as well as to coordinate recruitment activities with local community-based job training and placement organizations called "One-Stop Career Centers." EDD, in cooperation with the One-Stop network (<http://www.edd.ca.gov/one-stop/>), will help to customize and deliver pre-employment and on-the-job training; recruit, screen, and assess workers for specific skills sets; and assist employers to maximize California Enterprise Zone and federal hiring tax credits.

Also, through its CalJOBSSM system (<http://www.caljobs.ca.gov/>), EDD's Job Service offers a statewide network that provides an instant link between employers and job seekers anywhere in California. This network provides employers with quick access to the largest available pool of job-ready applicants.

Local & Federal Training and Hiring Incentives

- On-the-Job training contracts provide up to 50 percent wage reimbursements during an established training period for employees meeting specific qualification criteria.
- The federal Work Opportunity Tax Credit equals 40 percent of the first \$6,000 in qualified wages in the first year, provided the employee works at least 400 hours during the tax year.
- The federal Welfare to Work credit equals 35 percent of the first \$10,000 in qualified wages in year one and 50 percent of the first \$10,000 of qualified wages in year two, each time a qualified employee is hired.

<http://www.edd.ca.gov/wotcind.htm>

California Employment Training Panel

The Employment Training Panel (ETP) assists businesses in acquiring and retraining a highly skilled work force with expertise in very specific fields in order to increase competitiveness and productivity. The ETP will enter into a performance-based customized training contract, for new or existing employees, that is managed by either an approved training agency or the company itself. As the training is completed, the costs for developing, implementing, and completing the training are reimbursed. Averaging about \$1,500 per employee, reimbursements are made to the company for each employee that completes training and remains on the job for 90 days.

The program is open to all California companies that face out-of-state competition and meet one

or more of the following conditions:

- A need to retrain current employees to prevent layoffs.
- A need to upgrade workers in areas where there are skills shortages.
- A desire to hire and train unemployed workers eligible to receive unemployment insurance.
- Special or unique training needs in industries related to defense conversion or emerging technologies.

High priority business attraction, expansion and retention projects may receive "Critical Proposal Status."

<http://www.etp.cahwnet.gov/>

Financial Assistance

Industrial Development Bonds

To promote investment in land, buildings and new equipment associated with domestic manufacturing and processing operations, Congress created tax-exempt Industrial Development Bond (“IDB”) financing. As a result of federal and state income tax exemptions, IDB financing may be the most competitive financing option available for the acquisition of manufacturing facilities and equipment. IDBs allow private-sector entities to borrow at the low interest rates normally reserved only for state and local government entities.

The California Infrastructure and Economic Development Bank (I-Bank), several local Industrial Development Authorities (IDAs) and some Joint Powers Authorities (JPAs) issue IDBs on a “conduit” basis. A conduit revenue bond is an obligation issued by a governmental agency, but payable solely from the loan repayments received from the borrower. The bonds do not constitute an obligation of either the state or the issuer. Please review the following important features of IDBs:

- **Defined Public Benefit** -*The project must meet established public benefit criteria, General IDB Eligibility Requirements;*
- **Manufacturers and Processors Only** -*The bonds must be used to finance manufacturing or processing facilities and/or equipment;*

- **\$10 Million Limit** -Capital expenditures of the borrower, including the bond issue proceeds, cannot exceed \$10 million during the six-year period beginning three years prior to the date of issuance of the bonds and ending three years after the issuance date, including the creation of new jobs;
- **Letter of Credit** -The borrower must secure a letter of credit from a bank with a minimum long-term credit rating of “A-”;
- **Low Interest Rates** -The all-in annualized cost for most borrowers is 20% to 35% below conventional alternatives;
- **Long-Term Maturity** -The maturity of an IDB will typically be longer than conventional financing, often up to 30 years;
- **Comprehensive Funding** -The funds can be used for construction and take-out to finance land, buildings and equipment; and,
- **No Pre-Payment Penalty.**

The IDB financing process can generally be completed within 150 days. The conduit issuer’s staff and a financing team, which typically consists of an underwriter, bond counsel and financial advisor, will assist the applicant through each stage of the process.

http://www.ibank.ca.gov/state/ibank/ibank_homepage.jsp

<http://www.treasurer.ca.gov/cidfac/idb.asp?part=1>

Pollution Control Financing

The California Pollution Control Financing Authority (CPCFA), located in the State Treasurer's Office, provides businesses in California with financing for pollution abatement equipment and waste disposal and resource recovery facilities for the management of environmental pollution hazards. The Authority offers direct loans, conventional loan guarantees, tax-exempt or taxable bonds and loan portfolio insurance to businesses seeking financing for qualified pollution control projects, which can include the entire cost

of a pollution control project, including land and buildings attributable to the project, equipment, and engineering fees. The program also funds related financial and administrative expenses.

Generally, tax-exempt bonds are more desirable with issue amounts over \$5 –7 million, at which time the interest rate is greater than the additional costs of obtaining a letter of credit, feasibility consultants, bond counsel and underwriters.

<http://www.treasurer.ca.gov/cpcfa/bondfinancing.htm>

Small Business Loan Guarantee

The Small Business Loan Guarantee Program promotes job retention and creation and encourages small business entrepreneurship, particularly among minorities, women, and the disabled. The program provides loan guarantees on revolving lines of credit, small loans and agricultural loans, which are niche markets not typically served by the federal Small Business Administration (SBA).

Businesses applying to the program receive funding from a private lender, typically banks. This loan is guaranteed by one of 11 nonprofit offices on behalf of the state, called Small Business Financial Development Corporations, organized under the California Corporations Code.

All loan proceeds must be used in California for the purposes for which the loan was given and proceeds cannot be used for speculative purposes. To qualify, a borrower must not be able to obtain credit through traditional means, but must still demonstrate reasonable capacity to repay the loan.

The legal maximum guarantee is 90 percent of the loan amount, not to exceed \$500,000 (there is no limit on the loan amount), with the guarantee not to exceed seven years. The lender negotiates the interest rate with the borrower. A loan origination fee of up to 2 percent and a documentation fee of up to \$250 may be charged by the Financial Development Corporation.

<http://www.calbusiness.ca.gov/cedpgybfasblgp.asp>

SBA 504 Loans

SBA (Small Business Administration) 504 loans are marketed, processed, closed and serviced by Certified Development Corporations (CDC). Through the SBA 504 Program, CDCs provide up to 90 percent of fixed-asset financing costs. The second mortgage, long-term, fixed-rate financing nature of the program allows banks to participate in business expansion by reducing risk exposure. The benefit to the borrower is a lower down payment requirement (10 percent) and a longer-term, fixed-rate loan, which translates into reduced monthly payments.

Accredited Lender Program CDCs provide streamlined loan processing/servicing and receive accelerated credit decisions from the SBA. Premier Certified Lender Program CDCs accept financial responsibility for loans they underwrite and need only limited review from SBA. The result of one full time equivalent job for every \$35,000 of SBA funds is desired within two years of project funding.

Individual job goals can be somewhat flexible if the CDC's overall portfolio meets the requirements. At that point, community impact and public policy goals can be mitigating factors. Eligible 504 loan uses include the purchase of land, existing buildings, new construction, and the acquisition of machinery and equipment with a 10-year useful life. The private sector participant finances 50 percent of the project cost and takes a first lien on assets pledged as collateral.

The SBA takes a second lien on assets and finances up to 40 percent of the project cost, up to \$1 million in some cases. Borrowers inject 10 percent in the form of cash or equity in real estate. For more information on SBA 504 loans, call the California Statewide Certified Development Corporation toll free at (800) 348-6258.

<http://www.sba.gov/financing/sbaloan/cdc504.html>

USDA Rural Development

The U.S. Department of Agriculture sponsors "Business & Industry" guaranteed loans in rural communities. USDA guarantees up to 80% on loans from \$750,000 to \$5 million and up to 70% on loans up to \$10 million. Rates are fixed or variable and negotiated between lender and business. Terms are typically seven years for working capital, 15 years on equipment and 30 years on real estate.

Lenders negotiate their own fees and the USDA charges 2% of the guaranteed amount as a one-time fee. Most types of businesses qualify but the project must be in a rural area beyond the urbanized periphery surrounding a city of 50,000 or more. Communities that have grown beyond 50,000 since the 2000 census may still be eligible.

<http://www.rurdev.usda.gov/ca/index.htm>

Recycling Market Development Zone Revolving Loan Program

The Recycling Market Development Zone (RMDZ) Revolving Loan Program makes capital available for California manufacturers located in RMDZs. The program provides direct loans to eligible businesses that manufacture recycled raw materials, produce new recycled products, or that reduce waste from the manufacture of a product. These loans promote market development for post consumer and secondary waste materials and

divert waste from non-hazardous California landfills. Funds may be used to acquire equipment, make leasehold improvements, purchase recycled raw materials and inventory, or acquire real property. Applicants may borrow a maximum of 75% of the cost of a project or \$2 million. Terms are generally 10 years and low interest rates are fixed.

<http://www.ciwmb.ca.gov/rmdz/loans/>.

Local Incentive Options

Capital Investment Incentive Payments

California has enabled cities and counties to negotiate property tax rebates with high-tech manufacturing companies. Under the law, local governments can cap the taxable value of any new high-tech manufacturing plant at \$150 million annually for up to 15 years. The manufacturer is then charged an annual "community services fee" of approximately \$2 million.

This program commenced in the 1998-99 fiscal year and can only be approved by a majority vote of the local governing body. The Business, Transportation & Housing Agency certifies that businesses described in Standard Industrial Classification (SIC) Codes 3500 to 3899 are eligible for the program. (California law still references the SIC codes. To identify the newer North American Industry Classification System (NAICS) code for these types of businesses, go to:

<http://www.census.gov/epcd/www/naicstab.htm>.) Special districts and school districts may also participate in the payment of

capital investment incentive payments, although they may not make payment of an actual allocation. A Community Services Agreement (CSA) dictates community service fee remittances, in amounts equal to 25 percent of the capital investment incentive amount calculated for that project proponent for that fiscal year. This fee cannot exceed \$2 million in any fiscal year. Employees at the facility specified in the CSA must be covered by an employer-sponsored health benefits plan and the average weekly wage, exclusive of overtime, cannot be less than the state average weekly wage. The "state average weekly wage" means the average weekly wage paid by employers to employees covered under unemployment insurance, as reported to the Employment Development Department for the last four calendar quarters.

Contact your local city or county for more information.

Rural Investment Tax Exemption

The Rural Investment Tax Exemption (RITE) Program provides a partial sales and use tax exemption to qualifying businesses in designated high-unemployment counties. The total amount of exemption is capped at \$5 million per year. The business must be located in, or plan to locate in a California county with unemployment at 5% or more the state annual average.

For 2005, those counties include Colusa, Imperial and Tulare. Businesses in eligible counties must invest at least \$150 million and create a minimum of 500 new jobs (175 direct and 325 indirect) in the county. Unless extended, the RITE Program is scheduled to sunset December 31, 2005.

<http://www.boe.ca.gov/pdf/reg1525-7.pdf>

Local Revolving Loan Funds

Enterprising communities throughout California have recognized that revolving loan funds (RLF) are important economic development tools. The United States Economic Development Administration, Department of Agriculture and Housing and Urban Development's Community Development Block Grant Program typically capitalize RLFs. Their proceeds often provide critical capital to deserving small businesses, which in turn, provide needed jobs in urban and rural areas throughout California.

Certain businesses may be targeted for assistance and most often the loan will be provided as part of an overall package in the form of gap financing.

RLFs are guided by policies that outline loan or loan guarantee sizes, uses, rates, terms, special conditions and participation levels.

The goals, objectives and priorities of the program are weighed against the portfolio's requirements and loans are approved or denied by a Loan Administration Board. Conventional lending is required, with the RLF taking a second or third mortgage position. Personal and/or corporate guarantees are required.

Contact your local city or county for more information.

Redevelopment Area

Various forms of financial assistance are available through local redevelopment agencies in California. Business may benefit through direct financial assistance, land assemblage, bond issuance and/or construction of public improvements. Redevelopment is funded through incremental property tax revenue increases that are a direct result of private investment and increased property values.

Assistance may be in the form of fee reductions, infrastructure improvements, land cost reductions, mortgage interest reductions, rehabilitation/demolition/clearance of existing structures, and utility tax rebates. Legislation enables the redevelopment agency to provide financing for manufacturing projects under certain conditions. Capital financing or long-term operating leases may also be permitted.

Contact your local redevelopment agency or the California Department of Housing and Community Development at <http://www.hcd.ca.gov>.

State Taxes

Corporation Income Tax

The Franchise Tax Board <http://www.ftb.ca.gov/> administers an 8.84 percent tax (known as the “Bank and Corporation Franchise Tax”) on net corporate income.

California S Corporations are subject to a tax rate of 1.5 percent on net income.

California uses the unitary method to determine the portion of income reasonably attributable to this state and thus subject to the Bank and Corporation Franchise Tax. Corporations deriving income from sources both within and outside the state are required to report the income of all related business units in a combined report. The combined income derived from all business activity is apportioned to each state or nation using an apportionment formula.

The percentage of property, payroll, and sales attributed to California, versus worldwide operations, is calculated. They are then added together, with double weight given to sales, and divided by four.

This calculation determines the percentage of the unitary or combined income subject to California’s bank and corporation franchise tax.

Apportionment Formula = percentage of unitary income subject to California’s corporate tax.

California Payroll (percent)	California Property (percent)	California Sales (percent)	California Sales (percent)
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Multinational corporations may make a “Water’s Edge” election whereby they exclude most income derived from foreign operations from the combined report. Foreign business units or corporations that have an apportionment percentage in excess of 20 percent must be included in the combined report. The election lasts for seven years, but is continuously renewed unless a notice of non-renewal is filed by the business.

<http://www.ftb.ca.gov/aboutFTB/manuals/audit/water/>

Sales and Use Tax

Administered by the Board of Equalization, the State of California and local jurisdictions impose sales and use taxes that average approximately 7.25 percent. The sales tax applies to the gross receipts of retailers from the sale of tangible personal property which is not specifically exempt. Specific exemptions include most food for home consumption and prescription medicine. Sales tax is imposed at the point of sale. It is the responsibility of the retailer, but paid by the purchaser.

Use tax is paid on items purchased for the intent of use in California. Intent of use is defined as used in California within 90 days of purchase. The tax is self-reported and paid at the rate applicable in the jurisdiction in which the item will be used less the tax paid in another state.

Note: Construction materials are not exempt from sales tax. Construction labor is not taxed.

<http://www.boe.ca.gov/>

Property Taxes

County government levies and administers property taxes. The State Board of Equalization performs an oversight role relative to county assessors' activities. Property tax is levied on 100 percent of assessed valuation. The tax rate is 1 percent plus a component representing bonded indebtedness for the district in which the property is located on the lien date. The average property tax rate in California is 1.1 percent, but varies on a parcel basis.

Real property is appraised upon change of ownership or new construction, then adjusted annually at the *lower* of 2 percent or the rate of inflation as measured by the Consumer Price Index. Assessed values on real property may be reduced if the value is higher than the current market value.

Business personal property, including machinery, equipment, and fixtures is taxed at the same rate as real property, but is not subject to any special assessments. Unlike real property, business personal property is reappraised annually. Business owners must file a property statement with the county assessor each year detailing market value.

Finished goods and raw materials are not subject to property tax. Only finished goods held for use are assessed.

<http://www.boe.ca.gov/proptaxes/proptax.htm>

Unemployment Insurance

All employers are required to pay into the Unemployment Insurance Fund, which is used to pay unemployment benefits. All new employers are required to pay a rate of 3.4 percent on the first \$7,000 in wages for the first three years. In the fourth year, the tax rate is reevaluated based on the employer's tax payment history, employment history, and potential future unemployment.

2005 rates are contained in Section F+ and range from 1.5 - 6.2% + a 15% emergency surcharge, rounded to the nearest tenth. In addition, 0.1 percent of the first \$7,000 in wages is paid to the Employment Training Panel.

<http://www.edd.ca.gov/employer.htm#The%20Unemployment%20Insurance%20Program>

Disability Insurance

Administered by the California Employment Development Department, this is an *employee paid tax*.

The withholding rate for tax year 2005 is 1.08 percent and the taxable wage limit for disability insurance withholding is \$79,418.

<http://www.edd.ca.gov/taxind.htm>

Workers' Compensation Insurance

California's workers' compensation system is overseen by the Department of Industrial Relations and the Department of Insurance. During 2004, Governor Schwarzenegger signed SB 899 into law. This landmark reform legislation that overhauled the workers' compensation system and required independent medical reviews, established employer-selected doctor networks and imposed uniform standards. As a result, insurance capital has flowed into the state and new insurers have entered the market.

According to the Department of Insurance, base rates have fallen approximately 26% since January 2004. Employers seeking new or renewal policies are encouraged to consult the Department of Insurance's online rate comparison for the Top 50 workers' compensation insurers at <http://www.insurance.ca.gov/docs/FS-WC227.htm>.

Overview of California Tax System

Tax	Base or Measure	Rate	Administering Agency
Corporation Income or Bank and Corporation Franchise Tax	Combined net income apportioned to California.	8.84 percent	Franchise Tax Board
Sales and Use Tax	Receipts from sales or lease of taxable items.	7.25-8.25 percent	Board of Equalization
Property Tax	100 percent of assessed valuation	Avg. 1.1 percent	County Government
Personal Income Tax	Taxable personal income.	1-9.3 percent	Franchise Tax Board
Unemployment Insurance Tax (aka Payroll Tax)	First \$7,000 of wages per employee per year.	1.5 – 6.2 percent (see Schedule F+)	Employment Development Department
Disability Insurance (<i>employee paid</i>)	Taxable wage limit for withholding of \$68,829 (1/05).	1.08 percent	Employment Development Department
Finished Goods, Raw Materials, and Inventory Tax	NONE	NONE	NONE
Workers' Compensation Insurance	Per \$100 of payroll.	Varies based on job classification, workplace safety record, and insurance carrier.	Department of Insurance, Department of Industrial Relations

Permit Process

California can readily accommodate expansion and location projects with properly-zoned, infrastructure-rich industrial and commercial sites. Many communities have also adopted state-of-the-art permit streamlining practices, which enable them to efficiently meet a company's project timeline. A number of counties have established Business Environmental Resource Centers that act as one-stop, non-regulatory offices set up to help businesses understand and comply with air quality, hazardous materials/waste, solid waste and water quality regulations. They act as neutral third-party mediators and their services are free and confidential. These communities will assign a project manager to personally guide an applicant through the permit process.

Overview of Permit Procedure

There are four elements that are generally required for a project to initiate the permit process. The following is a summary of the steps that a project may follow to become fully permitted in California.

1. An adequate description of the proposed project.
2. A completed application form of usually less than four pages.
3. The appropriate filing fee as determined by the local, state, or federal permitting authority.
4. California law requires development projects to be reviewed for any potential effects on the environment. Impacts on air and water quality, traffic, housing, and land use are generally considered. If there is a significant effect on resources, then further documentation may be required.

The permit process starts at the local level in the planning department. Local permits called "land use" permits are generally required to ensure that a proposed project or business is located in the appropriate region of the city that has been identified for similar use.

These regions, called "zones," are identified in the city or county's general plan, and represent what the local government (on behalf of the citizens of that community) requires of the business to operate in a particular zone. Land use permits ensure that the proposed project use is consistent with the general plan and verify that the proposed project conforms to the overall plan for the local community.

When a proposed business first initiates the permitting process with the local authorities, it automatically begins an environmental review process. This is in the form of an "Initial Study," which checks whether or not the project may have an effect (for example, increased demand) on such factors as water supply (yes, no or maybe). Any "yes" and "maybe" impacts may need to be mitigated, depending on the local environmental and political climate. A significant number of "yes" answers may inspire the lead agency (which is in charge of coordinating all permits), to require an Environmental Impact Report (EIR).

The Permit Streamlining Act places lead agencies on strict timelines in which to issue all necessary permits.